

## Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 263108

FOL REPEAT BRASILIA 8964 SENT ACTION SECSTATE

INFO RIO DE JANEIRO SAO PAULO NOV 27

QTE

C O N F I D E N T I A L BRASILIA 8964

FOR ARA, EB, AND S/P

E.O.11652: GDS

TAGS: ETRD, EAGR, BR

SUBJECT: BRAZILIAN ATTITUDES ON COFFEE AGREEMENT

1. IN COURSE OF COURTESY VISIT BY ECONOMIC COUNSELOR, SOUTO MAIOR,  
FOREIGN MINISTER'S CHIEF OF CABINET, DISCUSSED AT SOME LENGTH EVOLVIN  
G

BRAZILIAN ATTITUDES TOWARD NEW COFFEE AGREEMENT. NOTING FORTHCOMING  
PRODUCER MEETING IN LONDON, MAIOR SAID HE WAS INTERESTED IN ANY  
INFORMAL INDICATION OF US ATTITUDES AS GOB FORMULATES A DEFINITIVE  
POSITION. SOUTO MAIOR STRESSED THAT HE WAS SPEAKING PERSONALLY AND IN  
AN EXPLORATORY VIEN, AND THAT NO FINAL TOP LEVEL POSITION HAD  
YET BEEN TAKEN BY THE GOB.

2. GOB IS LEANING TOWARD "TIGHT" AGREEMENT WITH HIGH DEGREE OF  
AUTOMATICITY, INCORPORATING THREE ELEMENTS (1) AN AGREED PRICE  
RANGE SUSTAINABLE OVER A PERIOD OF TIME: (2) A PRICE ADJUSTMENT  
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MECHANISM TO COMPENSATE FOR RAPID WORLD-WIDE INFLATION: AND (3) AN

ASSURANCE-OF-SUPPLY PROVISION. IF THE CONCEPT OF A TIGHT AGREEMENT ALONG THESE LINES WAS NOT ACCEPTABLE, IT WAS VERY QUESTIONABLE WHETHER BRAZIL SHOULD ENTER INTO AN AGREEMENT AT THIS PARTICULAR TIME, GIVEN THE MANY ECONOMIC AND POLITICAL DISADVANTAGES OF A "LOOSE" AGREEMENT.

3. ACCORDING TO SOUTO AMIOR, THE CRUX OF A NEW AGREEMENT AT THIS TIME IS AN ADEQUATE PRICE ADJUSTMENT PROVISION. WITH INFLATION IN MAJOR COUNTRIES NEXT YEAR PERHAPS ON THE ORDER OF 13 PERCENT (AVERAGE), PRODUCERS WOULD BE PENALIZED BY AN AGREEMENT NOT CONTAINING SUCH A PROVISION. ADJUSTMENT SHOULD BE ACCOMPLISHED THROUGH A QUITE SPECIFIC FORMULA, NOT BY A GENERAL REVIEW CLAUSE, TO REDUCE THE TIME LAG.

4. COUNSELOR EXPRESSED DOUBT THAT USG WAS PREPARED TO CONSIDER A SPECIFIC AUTOMATIC FORMULA, BUT PROMISED TO PROVIDE WHATEVER INSIGHT WE COULD ON WASHINGTON'S THINKING BEFORE THE DECEMBER 9 MEETING.

5. COMMENT: WHILE SOUTO MAIOR APPEARED SINCERELY AND GENUINELY INTERESTED IN PURSUING AGREEMENT DEFENSIBLE IN TERMS OF BRAZILIAN INTERESTS, WE KNOW, OF COURSE, GOB ATTITUDE TOWARD CONCLUSION OF AGREEMENT AT THIS TIME HAS BEEN HIGHLY AMBIVALENT. (SOUTO MAIOR DID NOT DISPUTE THIS WHEN COUNSELLOR DESCRIBED THIS AS THE PREVAILING IMPRESSION IN WASHINGTON.) A TOUGH BRAZILIAN STAND IN FAVOR OF TYPE OF AGREEMENT WHICH U.S. COULD NOT ACCEPT WOULD BE ONE WAY FOR BRAZIL TO SHIFT BURDEN FOR NO-AGREEMENT TO THE U.S.

6. EMBASSY WISHES TO BE RESPONSIVE TO SOUTO MAIOR'S INQUIRY, EITHER FORMALLY OR INFORMALLY. MAIOR WAS KEY FIGURE IN US-BRAZILIAN POLICY TALKS LAST WEEK (WHERE THIS QUESTION OF INDEXING WAS DISCUSSED) AND MAY HEAD BRAZILIAN DELEGATION TO LONDON TALKS. WE UNDERSTOOD MAIOR ALSO RAISED THIS ISSUE WITH SAM LEWIS. WOULD APPRECIATE GUIDANCE ASAP

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## Message Attributes

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